

City of Burbank Budget Study Session

FEBRUARY 7, 2019



Study Session Overview:

- Review of Strategic Structural Correction Plan
 - 3 Essential Elements
 - New Financial Policies
 - Infrastructure Oversight Board
- Current General Fund Five-Year Financial Forecast
- Proposed Pension Funding Plan
- Next Steps

City of Burbank

Three Essential Elements to Secure Burbank's Future

Operating Deficit	(\$30.5)M
1) Measure T: In-Lieu Transfer	\$12.5 M
<i>Complete</i>	
2) Council & Labor Initiatives	\$9 M
<i>In Progress</i>	
3) Potential New Revenue Source	\$20 M*
<i>Complete</i>	
Remaining Balance	\$11 M

Operating Safety Enhancements	\$1 M
Street Pavement	\$2.5 M
To begin addressing Infrastructure Repairs & Maint.	\$7.5 M
Total Investment	\$11 M



**Revenue estimate based on potential 3/4 cent Sales Tax Measure*

Essential Element 1: Measure T

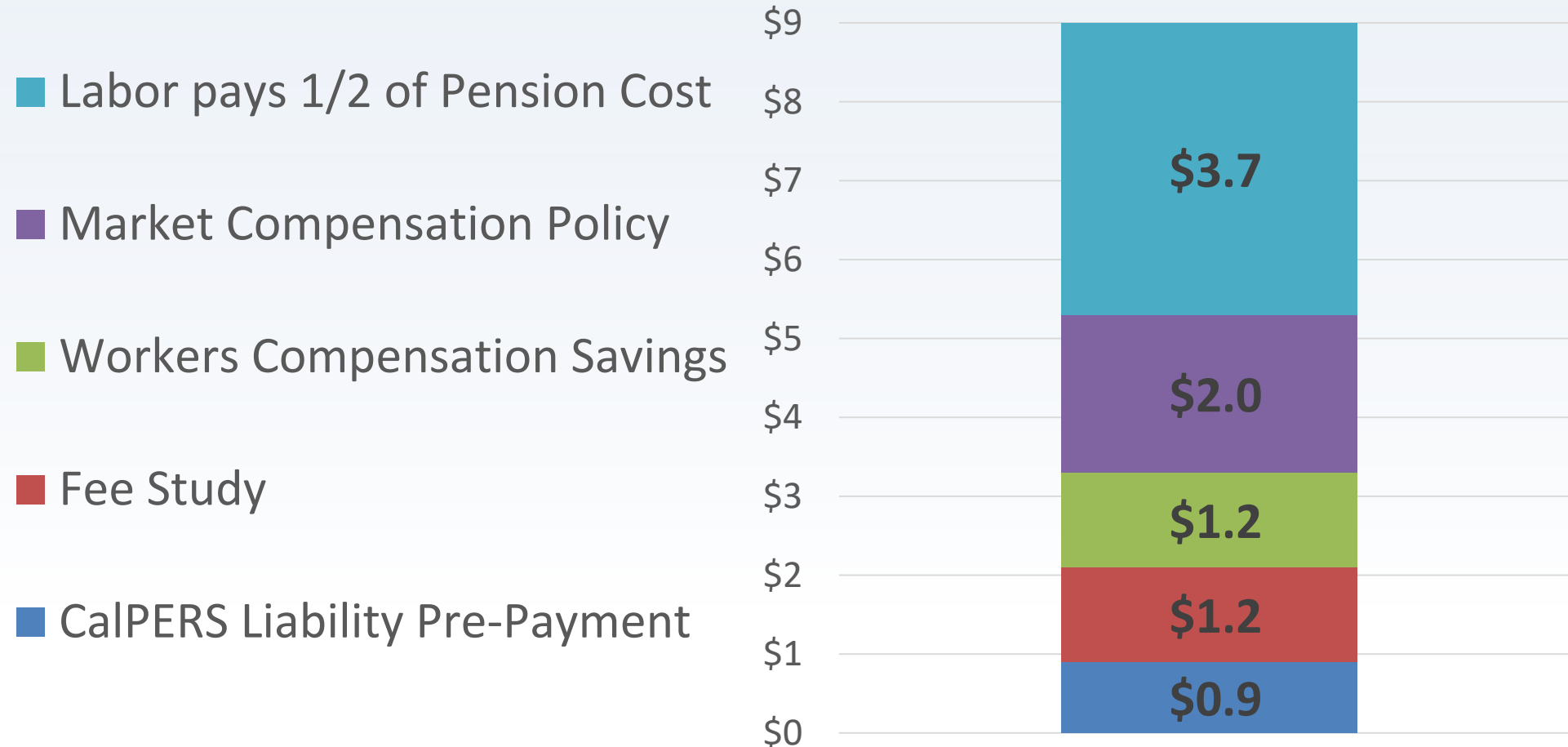
Burbank Water and Power Fee Transfer

- **81.24% PASSING VOTE** – June 5, 2018 Statewide Primary Election
- Since 1950's, the City has transferred up to 7% of BWP gross annual sales of electricity to the General Fund in-lieu of other taxes paid by a private utility such as Property Taxes and Franchise Fees.
- Pays for City of Burbank services such as Police, Fire, Library and Street Lights
- Measure T preserved \$12.5 million in annual General Fund revenue



Essential Element 2: City Council and Labor Initiatives

Estimated \$9 Million Recurring Savings



Update on Council and Labor Initiatives

- Labor Pays ½ of Pension Normal Cost
 - Forecast assumes full implementation by FY 2020-21
- Market Labor Policy
 - Forecast assumes market rate pay plus on-going 2% annual market rate increase
- Workers Compensation Savings
 - Additional savings anticipated in both Workers Compensation and Liability. Forecast will be finalized following receipt of updated Actuarial reports, expected early February.

Update on Council and Labor Initiatives

■ Fee Study Implementation

- FY 2018-19 Service Charge revenues exceeded forecast by \$2 million
- PASS Program participation is up to 468 residents (311 adult, 157 children)

■ CalPERS Liability Pre-Payment

- Saved a net \$810,845 Citywide in FY 2018-19

■ New Council and Labor Initiatives (↓Cost/↑Revenue)

- Required to keep pace with evolving community needs
- Finding “Better Business Models” to provide more for less

Essential Element 3: New Revenue

Measure P – Burbank Infrastructure and Community Services Protection Transaction and Use Tax

- **61.79% PASSING VOTE** – November 6, 2018 Midterm Election
- General purpose $\frac{3}{4}$ ¢ local sales tax
- Projected to provide approximately \$20 million annually
- No less than 50% dedicated to infrastructure repairs, maintenance and improvements
- New sales tax rate effective ***April 1, 2019***
- Oversight to be provided by a new ***Infrastructure Oversight Board***



New City Council Financial Policies

- 1) Employee Compensation & Pension Cost Sharing Policy
 - *Adopted September 2016 and amended for pension costs January 2018*
- 2) Pension and Other Post-Employment Benefit Funding Policy
 - *Adopted October 2018*
- 3) Infrastructure Maintenance, Repair, and Improvement Funding Commitment Policy
 - *Adopted October 2018*

Employee Compensation & Pension Cost Sharing Policy

Subject to the Financial Policies, and in order to recruit and retain a well-qualified workforce to provide exceptional services, we will compensate employees at a level commensurate with the average of Burbank's relevant labor market. The City and employees will evenly share the Normal Cost of employee pensions.



Infrastructure Maintenance, Repair, and Improvement Funding Commitment Policy

The City's objective is to maintain citywide infrastructure. To help ensure a minimum, reliable funding source for General Fund infrastructure improvements, maintenance, and repairs, the City will dedicate no less than 50% of the revenues generated through the Burbank Infrastructure and Community Services Protection Measure (Measure P, §BMC 2-4-2101, et. seq.) toward this purpose. This dedicated revenue does not supplant the previously existing General Fund commitment, but is in addition to the baseline General Fund annual commitment of \$4.7 million. The baseline General Fund annual commitment is based on the average of the previous three year's recurring General Fund infrastructure maintenance and repair funding prior to the voter approval of the Measure P (FY 2015-16, FY 2016-17, FY 2017-18).



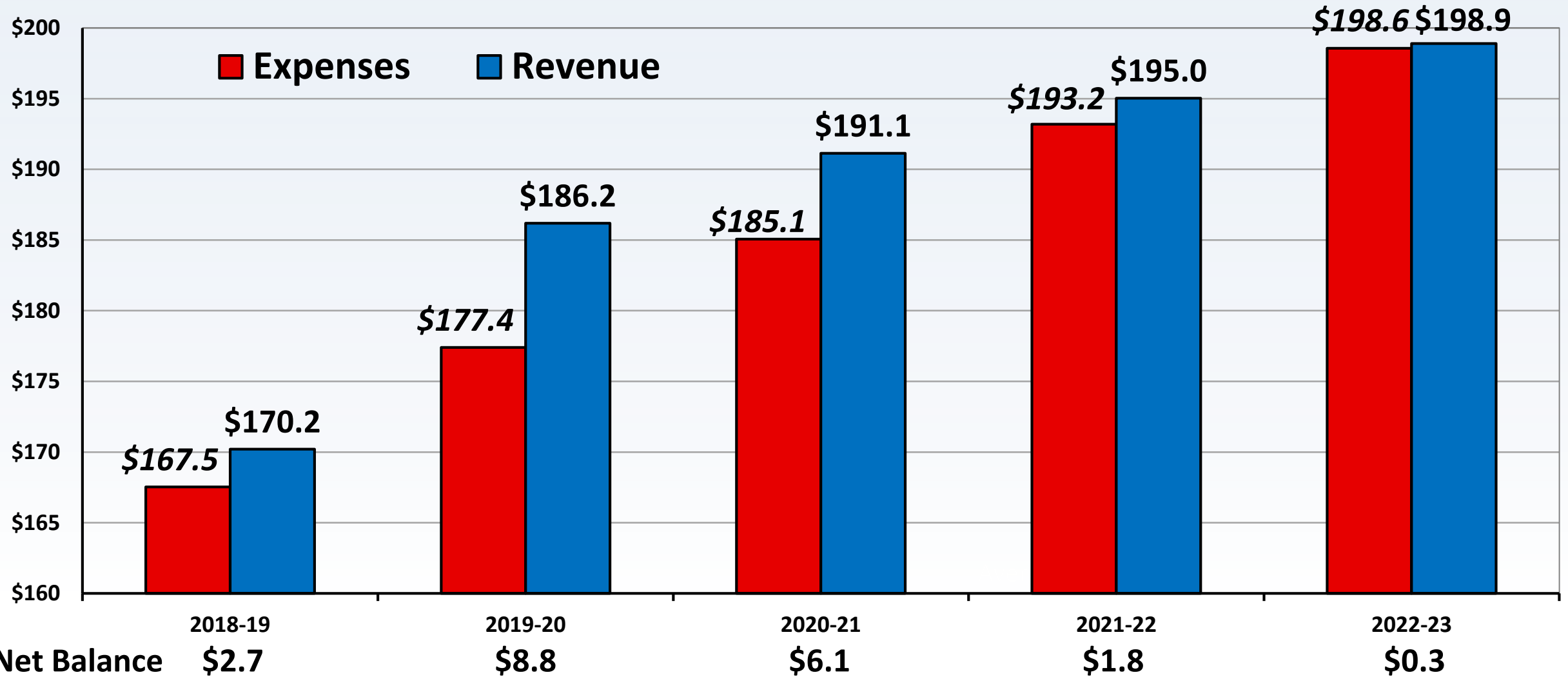
Pension and Other Post-Employment Benefit Funding Policy

We will require responsible funding of City provided post-employment benefits. The objective being to maintain all benefits fully funded, understanding that due to the use of actuarial assumptions, actual results will vary leading to years of either over or under funded status. In all years, the City will include the greater of the actual actuarially calculated annual post-employment benefit cost or the actuarially calculated annual normal cost of the post-employment benefit as a recurring cost in the City's annual budget. In other words, the City will pay as we go annually the cost of retirement benefits for current or past employment service. Further, the funding status of post-employment benefits will be reported to the City Council and public as an integral part of each year's public budget presentation.



General Fund Financial Forecast

Recurring Revenues versus Recurring Expenditures (\$ in millions)



General Fund Top Financial Priorities

- Reduce increasing City pension costs and address the Unfunded Pension Liability totaling \$349.9 million
 - Strategically invest available funds to reduce recurring costs and protect essential City services
 - Establish a reserve to protect the City from future pension funding volatility
 - Negotiate with City labor groups to implement City policies
- Unfunded Infrastructure needs totaling \$470 million for existing City assets alone
 - Study session focused on addressing infrastructure needs scheduled for February 19th

Pension Cost Components

➤ **NORMAL COST**

- The costs attributed to benefits accrued for the current year of service

➤ **UNFUNDED ACCRUED LIABILITY (UAL)**

- The accrued liability attributed to past service that are greater than the market value of the plan assets

Proposed Normal Cost Reduction Strategies

➤ Employee Benefit Formula Reduction

- *Public Employees' Pension Reform Act of 2013 Benefit Reduction:*

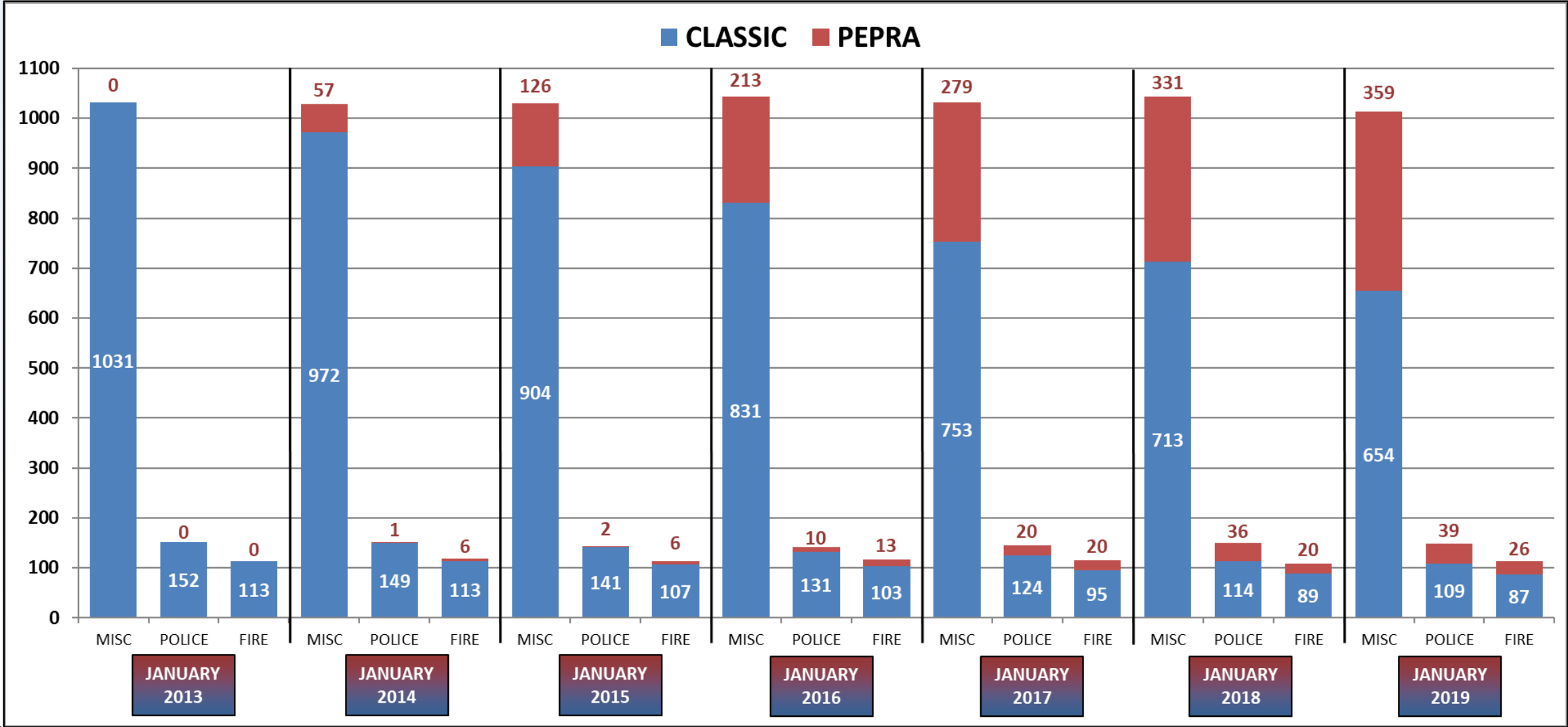
	MISCELLANEOUS	POLICE	FIRE
Classic Members (Pre-January 2013)	2.5% @ 55	3.0% @ 50	3.0% @ 55
New Members (Post-January 2013)	2.0% @ 62	2.7% @ 57	2.7% @ 57

- *Final compensation based on 3-year highest average*
- *Reduction in pension-qualifying differentials*

➤ Increase Employee Contribution toward Pension Costs

- *Financial Policy all employees to pay 50% of pension normal cost*

PEPRA Employee Growth



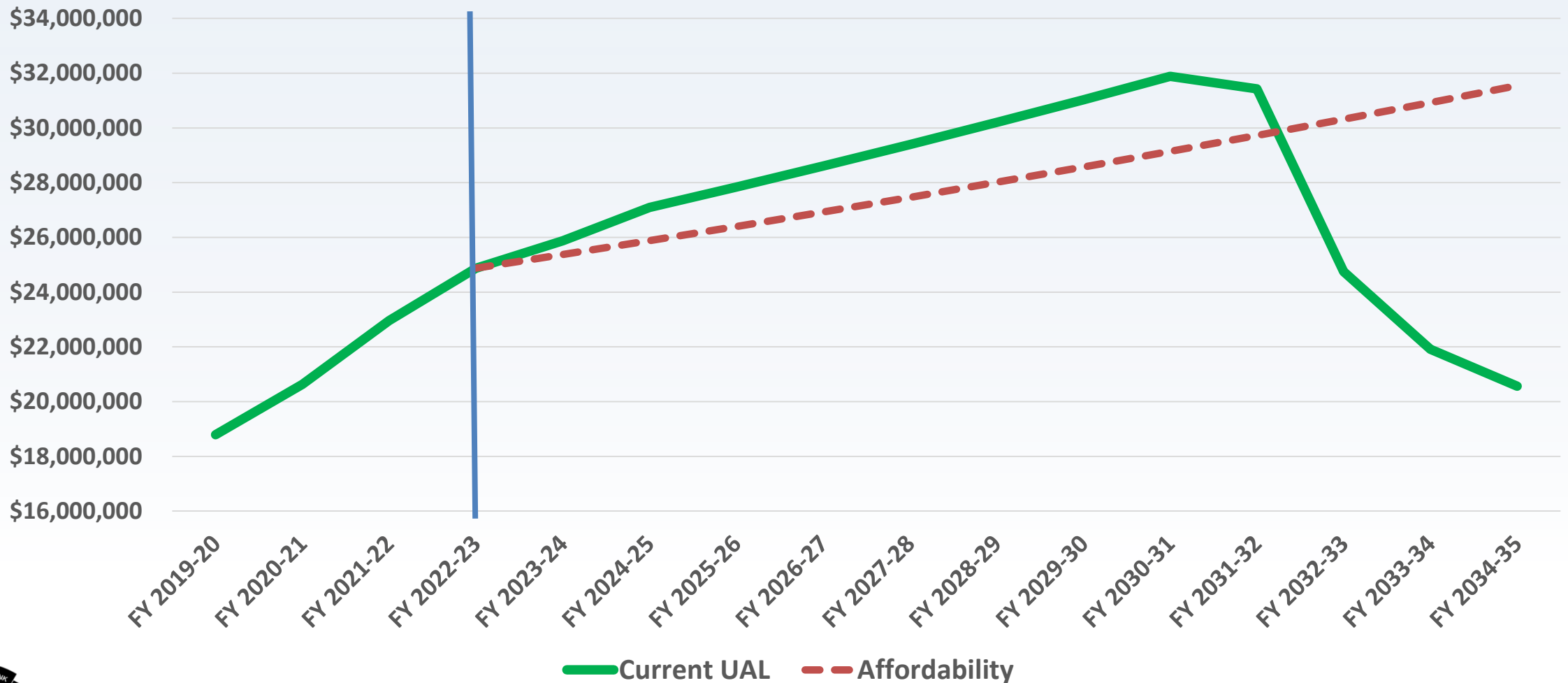
Employee Normal Cost Contributions

		POLICE			FIRE			MISCELLANEOUS		
		FY 2010-11	FY 2019-20	FINANCIAL POLICY GOAL	FY 2010-11	FY 2019-20	FINANCIAL POLICY GOAL	FY 2010-11	FY 2019-20	FINANCIAL POLICY GOAL
C L A S S I C	Employer	25.89%	24.10%	16.55%	22.09%	17.54%	13.27%	16.02%	10.28%	9.14%
	Employee	0.00%	9.00%	16.55%	0.00%	9.00%	13.27%	0.00%	8.00%	9.14%
	Employee %	0%	27%	50%	0%	34%	50%	0%	44%	50%
P E R A	Employer		12.75%	FINANCIAL POLICY GOAL ACHIEVED		10.25%	FINANCIAL POLICY GOAL ACHIEVED		6.50%	FINANCIAL POLICY GOAL ACHIEVED
	Employee		12.75%			10.25%			6.50%	
	Employee %		50%			50%			50%	



Projected General Fund UAL Payment

Total Unfunded Pension Liability: \$349.9 Million



Proposed UAL Cost Reduction Strategies

- Pay down your liability to CalPERs
 - Use one-time funds to pay down the unfunded liability
 - Improves long-term cash flow by reducing future payment amounts
 - Generate significant interest expense savings

- Establish a §115 Supplemental Pension Trust
 - Can be used by local governments to fund essential governmental functions (i.e. retiree healthcare, pension)

Citywide Proposed Pension Funding Plan

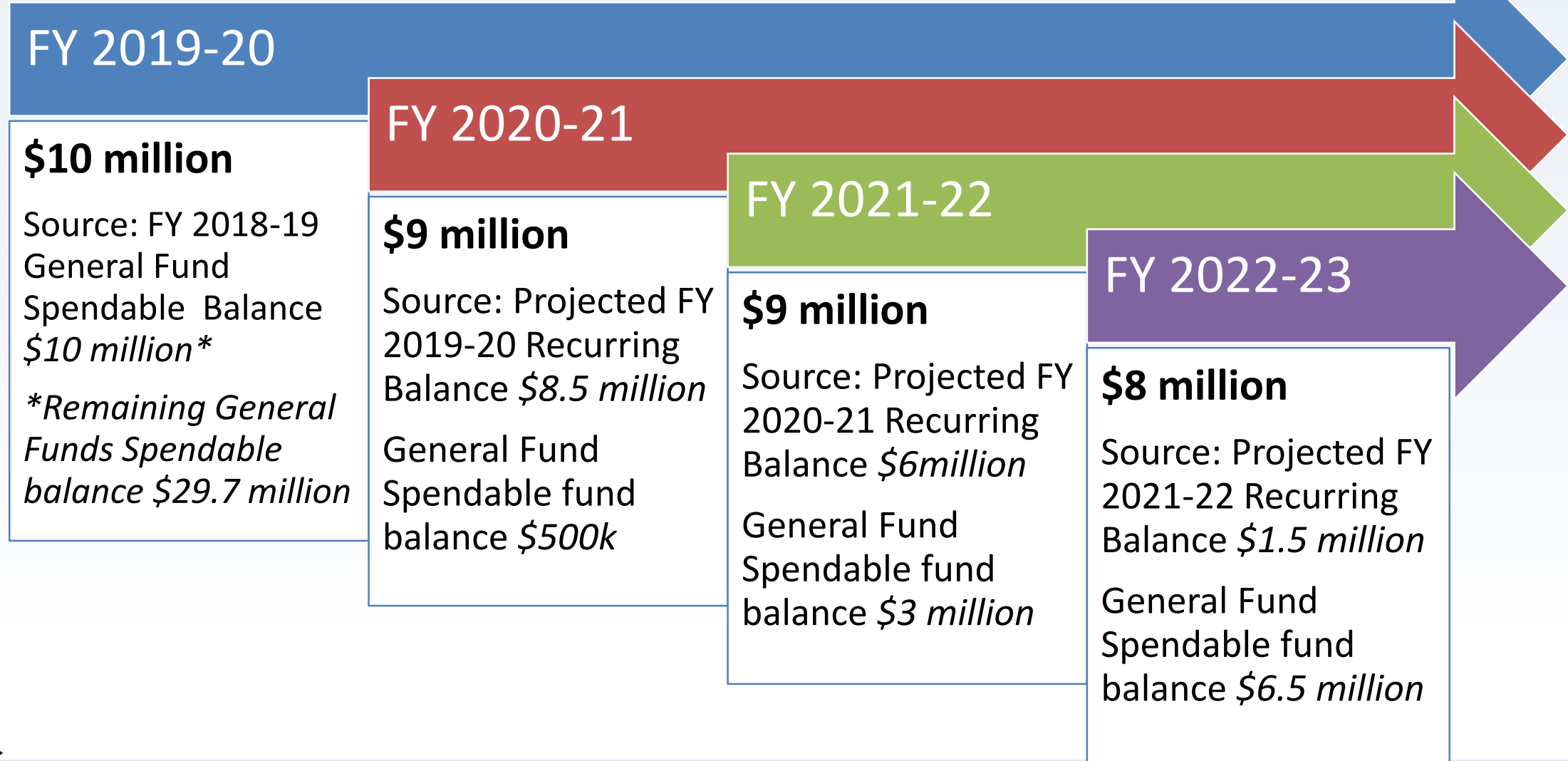
PLAN	TOTAL 4-YEAR COMMITMENT	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	INTEREST SAVINGS	PAY-OFF PERIOD
Miscellaneous*	\$ 34,000,000	\$10,000,000	\$ 8,000,000	\$ 8,000,000	\$ 8,000,000	\$35,864,382	20 YRS
Police	\$ 12,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$17,349,733	24 YRS
Fire	\$ 7,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 1,000,000	\$9,744,444	24 YRS
Citywide	\$ 53,000,000	\$15,000,000	\$13,000,000	\$13,000,000	\$12,000,000	\$62,958,559	

General Fund Commitment	\$ 36,000,000	\$10,000,000	\$ 9,000,000	\$ 9,000,000	\$ 8,000,000	\$45,026,368
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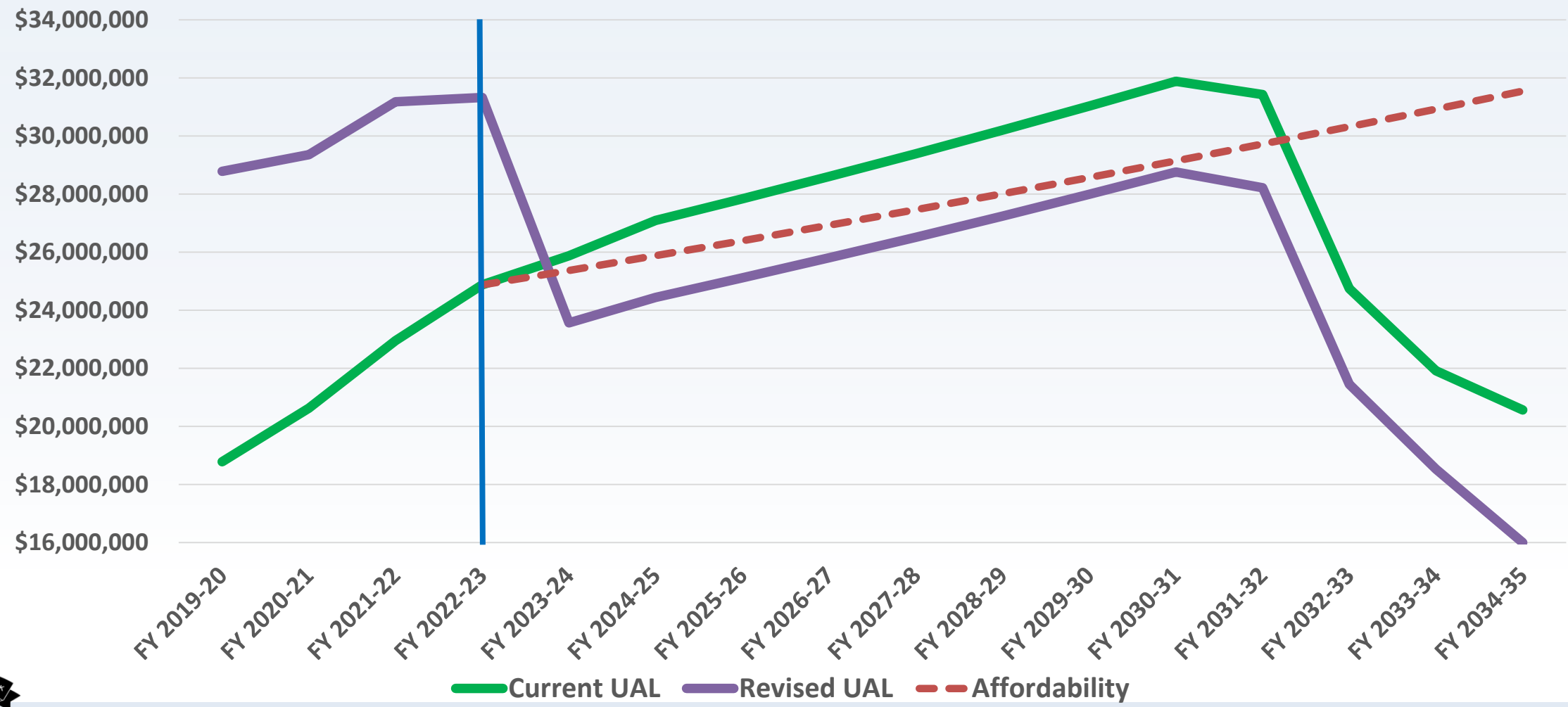
**** Approximately 50% funded by General Fund***



General Fund Funding Source: Proposed Pension Funding Plan



Projected General Fund UAL Payment

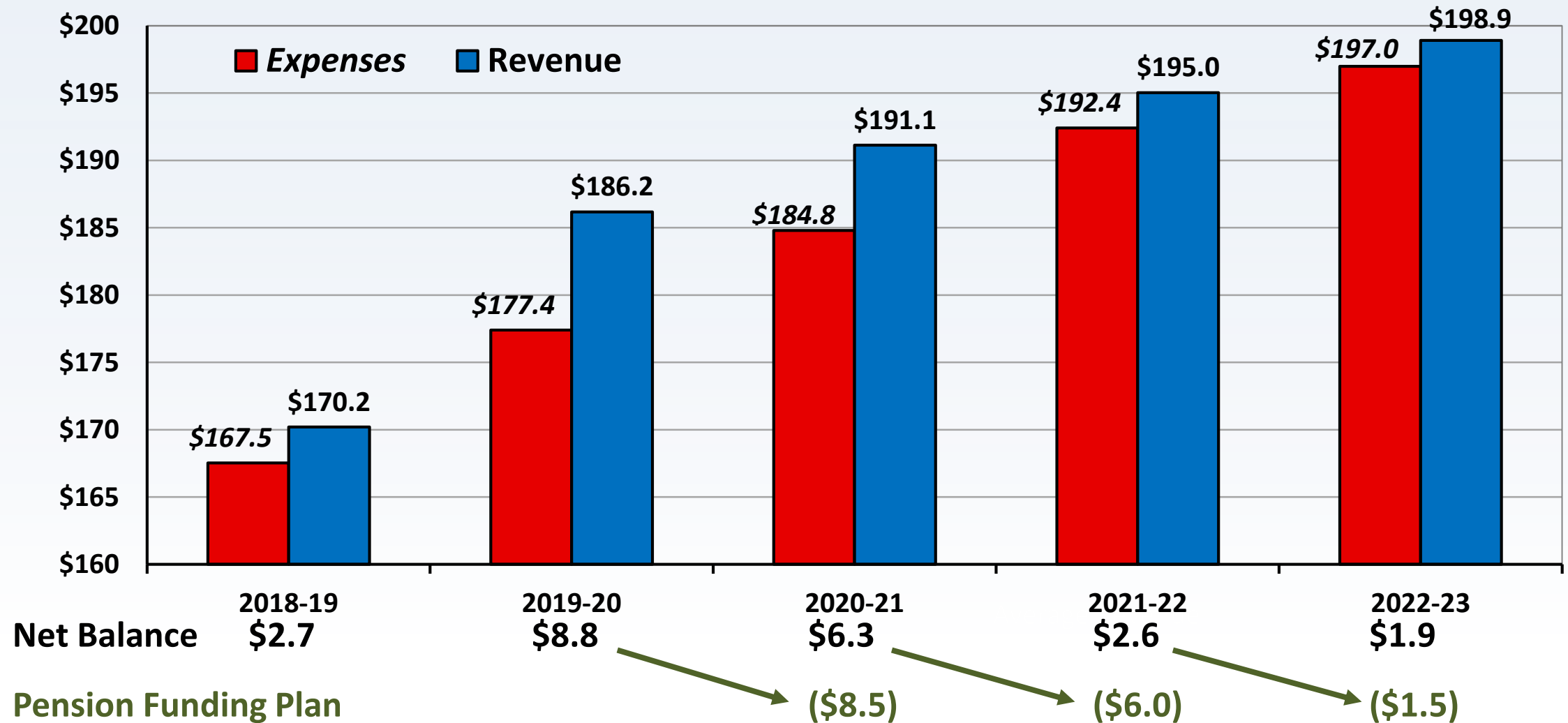


§115 Supplemental Pension Trust

- Allows the City to reserve funds to absorb funding volatility as a result of economic downturns or future actuarial changes
- Expanded investment options allow for a higher yield earnings
- Funds can be used to reimburse the City for payments to CalPERs
- CalPERs will offer a §115 Supplemental Pension Trust to participating agencies in FY 2019-20
- Funding Source: allocate portion of future recurring savings generated by pension funding plan

Revised General Fund Financial Forecast

Incorporates Proposed Pension Spending Plan



Revised General Fund Financial Forecast

(\$ in 000's)

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Recurring Balance	\$2,674	\$8,784	\$6,345	\$2,626	\$1,916
Pension Funding Plan	\$0	(\$10,000)	(\$9,000)	(\$9,000)	(\$8,000)
Ending Spendable Fund Balance*	\$29,703	\$29,669	\$28,307	\$23,297	\$19,250
<i>Formal Reserve Balances</i>	<i>\$33,506</i>	<i>\$35,479</i>	<i>\$36,958</i>	<i>\$38,480</i>	<i>\$39,397</i>

*Balance is after contributions to the Proposed Pension Funding Plan



Upcoming Council Budget Sessions

- ❖ Budget Study Session - Infrastructure

- ***February 19, 2019***

- ❖ FY 2018-19 Mid-Year Report

- ***March 5, 2019***

- ❖ Dedicated Council Budget Meeting

- ***April 16, 2019***

City Council

Questions and Direction to Staff